

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Sylvan Township Water and Sewer Authority</u>	County Washtenaw
Audit Date December 31, 2005	Opinion Date August 5, 2005	Date Accountant Report Submitted To State: December 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 1000 Oakbrook Drive, Suite 400	City Ann Arbor	State MI	ZIP 48104
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Sylvan Township Water and Sewer Authority**

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**Financial Report  
December 31, 2004**

# **Sylvan Township Water and Sewer Authority**

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## Independent Auditor's Report

To the Authority Board  
Sylvan Township Water and Sewer Authority

We have audited the accompanying financial statements of the Sylvan Township Water and Sewer Authority as of and for the year ended December 31, 2004 as listed in the table of contents. These financial statements are the responsibility of the Sylvan Township Water and Sewer Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sylvan Township Water and Sewer Authority as of December 31, 2004 and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance of the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

August 5, 2005

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# Sylvan Township Water and Sewer Authority

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## Statement of Net Deficit December 31, 2004

### Assets

Cash and cash equivalents	\$ 5,137
Customer receivables	<u>15,019</u>

Total assets 20,156

**Liabilities** - Due to other governmental units 128,671

**Net Deficit** \$ (108,515)

# Sylvan Township Water and Sewer Authority

## Statement of Revenue, Expenses, and Changes in Net Deficit Year Ended December 31, 2004

### Operating Revenue

Sale of water	\$ 10,094
Sewage disposal charges	18,232
Late charges	<u>437</u>
Total operating revenue	28,763

### Operating Expenses

Contract engineering services	68,366
Electric:	
Water	12,409
Sewer	3,105
Chemicals	3,671
Testing	393
Supplies:	
Water	7,628
Sewer	424
Repairs and maintenance:	
Water	7,122
Sewer	8,812
Natural gas	2,743
Telephone	2,122
Office supplies	3,323
Insurance	6,714
Fees and subscriptions	979
Diesel	2,127
Processing fees	<u>5,121</u>
Total operating expenses	<u>135,059</u>

**Operating Loss** (106,296)

**Net Deficit - Beginning of year** (2,219)

**Net Deficit - End of year** \$ (108,515)

# Sylvan Township Water and Sewer Authority

## Statement of Cash Flows Year Ended December 31, 2004

### Cash Flows from Operating Activities

Receipts from customers	\$ 13,744
Payments to suppliers	<u>(8,607)</u>

**Net Increase in Cash and Cash Equivalents** 5,137

**Cash and Cash Equivalents - Beginning of year** -

**Cash and Cash Equivalents - End of year** \$ 5,137

### Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (106,296)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:	
Customer receivables	(15,019)
Due to other governmental units	<u>126,452</u>
Net cash provided by operating activities	<u><u>\$ 5,137</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended December 31, 2004, there were no noncash activities.

# **Sylvan Township Water and Sewer Authority**

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## **Notes to Financial Statements December 31, 2004**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Sylvan Township Water and Sewer Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Sylvan Township Water and Sewer Authority:

#### **Reporting Entity**

The Sylvan Township Water and Sewer Authority is governed by an appointed five-member board. The Authority provides water and sewer services to certain areas within Sylvan Township, Lima Township, and Lyndon Township.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net deficit and the statement of revenue, expenses, and changes in net deficit) report all activities of the Authority. The activities of the Authority are considered business-type activities in that they rely to a significant extent on fees and charges for support. The Authority does not conduct any governmental activities.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Expenditures generally are recorded when a liability is incurred.

The Authority reports the following operating fund:

**The Water and Sewer Fund** - The Water and Sewer Fund, a proprietary fund, accounts for the activities of the water distribution system and sewage collection system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The board has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.



# **Sylvan Township Water and Sewer Authority**

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**Notes to Financial Statements  
December 31, 2004**

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** - Cash and cash equivalents include cash on hand and demand deposits.

**Customer Receivables** - The Authority has not recorded an allowance for doubtful accounts as it believes all receivables are collectible.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are owned by Sylvan Township, not the Authority. All assets used by the Authority are recorded on the financial statements of Sylvan Township.

**Due to Other Governmental Units** - While the Authority is establishing its customer base and beginning operations, certain operating expenses of the Authority are being paid by Sylvan Township. This liability will be repaid to Sylvan Township when resources become available.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

## **Note 2 - Stewardship, Compliance, and Accountability**

**Fund Deficits** - The Authority has accumulated a fund deficit in the operating fund. This deficit will be eliminated over time with customer receipts in excess of expenses.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The board has designated one bank for the deposit of its funds. The Authority has not adopted an investment policy.

# **Sylvan Township Water and Sewer Authority**

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**Notes to Financial Statements  
December 31, 2004**

## **Note 3 - Deposits and Investments**

**Deposits** - The entire cash balance is made up of bank deposits. The bank balance of the board's deposits is \$5,137, all of which is covered by federal depository insurance.

## **Note 4 - Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Authority has purchased commercial liability insurance to cover such claims.



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August 8, 2005

To the Authority Board  
Sylvan Township Water and Sewer Authority  
18027 Old U.S. 12  
Chelsea, MI 48118

Dear Members of the Authority Board:

In planning and performing our audit of the financial statements of the Sylvan Township Water and Sewer Authority for the year ended December 31, 2004, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

### **Internal Controls and Oversight**

The General Ledger was not maintained during the audit year. The General Ledger detail was created in your software subsequent to year end. This information needs to be maintained and recorded in a timely manner. Subsequent reviews of the recorded information (cash receipts, client billings, expenses, the note payable to Sylvan Township, etc.) should be performed at regular intervals during the year.

### **Bank Reconciliations**

Bank reconciliations have not been prepared during the audit year. We are aware that only four checks were written during the audit year. Going forward, as the Authority pays more of its own bills, the Authority needs to reconcile the balance per the bank statement to the general ledger. These reconciliations should be reviewed for accuracy by a second party.

### **Accounts Receivable**

An accounts receivable listing is not maintained. An aged listing by parcel or customer account should be produced from the customer billing software, supporting the figure recorded on the balance sheet.

August 8, 2005

### **Investment Policy**

Public Act 196 of 1997 requires a governmental entity to adopt an investment policy which outlines the acceptable investment vehicles and locations for bank deposits, as determined by the Authority. We recommend the Authority adopt a policy in order to be compliant with this Act.

### **Wire Transfers**

Public Act 738 of 2002 authorizes the Authority to make electronic transactions involving public funds by electronic payment, debit, or credit transfer processed through an automated clearing house (ACH). The Act requires the Authority to have a written ACH policy which outlines approval, accounting, and reporting of ACH transactions, and generally overseeing compliance with the policy. Although the Authority is not currently participating in such transactions, we recommend the Authority adopt a policy to become compliant with the Act in the event the Authority participates in these transactions in the future.

### **Note Payable to Sylvan Township**

The balance of the note payable to Sylvan Township should be reconciled to the balance recorded by the Township on a regular basis.

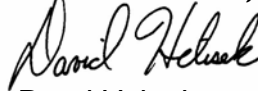
### **Budgeting**

It is our understanding that a budget has been prepared for the Authority for the year beginning January 1, 2005. We recommend that this budget is reviewed regularly by the Authority Board and amended as necessary.

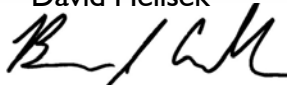
We appreciate the opportunity to serve as your auditors. We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



David Helisek



Brian J. Camiller